2001 Country Reports on Economic Policy and Trade Practices
Released by the Bureau of Economic and Business Affairs
U.S. Department of State, February 2002

ROMANIA

Key Economic Indicators

(Billions of U.S. dollars unless otherwise indicated)

	1999	2000	2001 (e) 1/
Income, Production and Employment:			
Nominal GDP (Billion Current Lei) 2/	521,735.5	796,533.7	1,103,100
Real Lei GDP Growth (pct) 3/	(3.2)	1.6	4.5
GDP by Sector (Million US$):	34,026.9	36,724.8	37,820.0
Agriculture	4,729.7	4,192.4	5,656.5
Manufacturing	9,459.5	10,136.9	11,348.0
Services	19,837.7	22,395.5	20,815.5
Per Capita GDP (US$)	1,512.3	1,639.5	1,692.4
Labor Force (Millions)	9.8	9.5	9.5
Unemployment Rate (pct)	11.8	10.5	9.9
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	44.9	38.0	25.4
Consumer Price Inflation	54.8	40.7	32.6
Exchange Rate (Lei/US$ annual average)			
Official	15,333.0	21,689.2	29,160.0
Parallel	16,315.0	22,139.9	29,352.0
Balance of Payments and Trade:			
Total Exports FOB 4/	8,504.7	10,366.5	12,025.1
Exports to United States 4/	316.9	379.8	408.9
Total Imports CIF 4/	10,395.3	13,054.5	16,918.6
Imports from United States 4/	362.4	391.1	458.3
Trade Balance FOB/CIF 4/	-1,890.6	-2,688.0	-4,893.5
Balance with United States	–45.5	-11.3	-49.4
External Public Debt5/	6,220.3	6,884.2	7,100.0
Fiscal Deficit/GDP (pct)6/	4.0	3.7	3.6
Current Account Deficit/GDP (pct)	3.8	3.8	7.9
Debt Service Payments/GDP (pct) 7/	10.4	5.9	5.1
Gold and Foreign Exchange Reserves 8/	2,492.9	3,396.6	4,506.5
Aid from United States	56.0	33.8	36.0
Aid from All Other Sources	172.8	324.2	300.0

1/ 2001 figures are all estimates based on available monthly data in September.
2/ GDP at factor cost.
3/ Percentage changes calculated in local currency.
4/ Merchandise trade.
5/ Public Guaranteed Debt included.
6/ Consolidated budget deficit.
7/ Short-term, included.
8/ Official reserves with the central bank.

1. General Policy Framework

Despite a slow start, market-based economic reforms have steadily picked up pace in 2001, the first year of the new government GDP growth has increased dramatically, exports have continued to grow, moderately tight fiscal policy has resulted in lower inflation, there has been modest progress in privatization, and industrial output has increased. On the negative side, a surge in imports has led to a widening current account deficit.

GDP is expected to rise around 4.5 percent in 2001. (The informal economy is estimated at more than 25 percent of official GDP. The current account deficit has widened to more than double normal figures, and external public debt has only slightly increased. Improved tax collection and tight public spending should bring the consolidated budget deficit down to around 3.5 percent of GDP under the new IMF's. Public direct and guaranteed external debt service was projected to drop to 5.1 percent of the GDP in 2001. Foreign public debt has increased only slightly, and Romania has continued to meet its debt obligations on time and in full. As a result of Romania's continued good record on debt service and steady growth of official foreign exchange reserves, , up 56.7 percent by June 2001 from June 2000, rating agencies have upgraded Romania's country rating to B(B) by Fitch, B(B) by Standard and Poor's, B-three (B3) from Moody's Investor Service.

Romania is committed to becoming a member of the European Union (EU), which is by far its largest trading partner, and has opened 15 accession chapters so far, of which eight are closed. Trade with the EU now accounts for 68 percent of Romania's merchandise exports and 56 percent of imports. Trade with the United States accounts for 3.4 percent of Romania's exports and 3.3 percent of its imports. In 2001, U.S. exports to Romania are projected to grow 17 percent.

2. Exchange Rate Policy

The foreign exchange market was liberalized in February 1997. The Leu is fully convertible for current account transactions and foreign investment. The Leu depreciated less in 2001 compared to 2000. For the first half of the year, the nominal devaluation was 12.5 percent, while the real appreciation was 2.3 percent. The central bank has remained committed to increasing the official forex reserves and has agreed to full future convertibility of the capital account, but the necessary conditions for the later are not yet in place and may require three to four years to complete.

3. Structural Policies

Economic reform has resulted in the passage of a wide variety of legislation affecting virtually every sector: commerce, privatization, intellectual property, banking, labor, foreign investment, environment, taxation, and SMEs. While new legislation is necessary to create a basis for a market economy, frequent regulatory change has slowed down the pace of trade and investment. Legal framework implementation has remained a serious problem, given subjective and sometimes corrupt manipulations. Another major legislative problem is the politically driven change of direction after elections, when several market-oriented ordinances adopted by the former government were immediately repealed by the new one, often without being submitted them to parliament for debate. Two of the most important ordinances repealed referred to private pension funds and the protection of minority shareholders. Both have impacted foreign investments in Romania, although the impact of repeal of the former was negative, while the repeal of the latter was mixed.

Agricultural prices are generally determined by market forces, and there are no export quotas. Over the past two years tariffs have been reduced by 66 percent. However, very modest progress has been made in agricultural sector privatization, and Agriculture Structural Adjustment (ASAL) program agreed with the World Bank was terminated. The Agricultural Bank's privatization, completed in 2001, represents a good reform opportunity both for agri-business investments in Romania, as well for the development of the retail banking sector.

Currently, deep-seated problems remain in the agricultural sector. Among them:

- the continued pervasive state presence, including in acquisition prices, state management of a large proportion of arable land, state ownership of input supply, storage, marketing, and agro-processing enterprises;

- incomplete land reform which has left many fragmented holdings, for which property rights are still not well-defined;

- limited financial services, few private input suppliers, and little extension services;

- agricultural coupons for tiled lands that arrive too late to be helpful for agricultural production.

The pace of reform in heavy industry has been even slower. The state has retained ownership of 65 percent of the industrial sector. Plant inventories and arrears have been up in 2001. While the government remains committed to privatizing, albeit with only moderate success to date, most liquidation procedures were halted and productive assets have been re-opened for social cause, regardless of financial cost. The recent privatization of Sidex, the largest steel plant, is a positive sign. Meanwhile, industrial direct or indirect subsidies such as soft loans are still largely concentrated in loss—making industries such as truck and tractor construction. However, tax incentives granted to potential growth sectors, such as IT or aluminum represented positive exceptions to this rule in 2001. Other sectors having good growth driving potential such as food-processing have received no support.

As a rule, the government does not interfere with market forces by implementing price controls; however, in order to provide some social comfort and anti-inflation leverage, it has sometimes released supplies from the state reserves of basic food-stuffs such as edible oil, sugar, etc.

4. Debt Management Policies

At the end of June 2001, Romania's medium and long-term external debt amounted to $10.0 billion, up slightly from $9.9 billion at the end of 2000. The National Bank's foreign exchange reserves amounted to $4.5 billion, gold included, and the total reserve assets of the banking system reached $5.7 billion in June 2001. Romania has claims against foreign countries amounting to $3 billion.

The Government of Romania succeeded in avoiding default in 1999 without resorting to roll-over, and since then has increased foreign exchange reserves. In 1999-2000, Romania succeeded in significantly cutting the current account deficit. In 2001, the trade deficit has been driving a booming current account deficit. After long negotiations, the previous government concluded with the IMF a new stand-by loan worth $535 million, the first installment ($73 million) of which was released in August 1999. A second tranche was released in June 2000 after significant delay, but the program expired in February 2001 without any more disbursements. The IMF Board approved a new 380 million Stand-By Agreement on October 31. The first installment was $66 million, and the first program review is scheduled for February 2002.

The previous government received a $300 million Private Sector Structural Adjustment Loan (PSAL) from the World Bank, which was fully disbursed. Under the PSAL, the Government of Romania worked to reform the banking sector, close loss-making firms, and improve the business environment. The World Bank will continue this work with the new Government of Romania through a second PSAL that is expected to be approved shortly.

Despite the absence of an IMF program, the Government of Romania succeeded in tapping international private capital markets this year at favorable rates. A January 2001 Eurobond issue in the amount of EUR 150 million, with an interest rate of 11.5 percent for five years was re-opened in March for another EUR 150 million, with the same maturity, at an 11.25 percent interest rate. In June 2001, EUR 600 million were obtained for seven years at 10.65 percent, but there was sufficient demand to have sold EUR 1300 million in bonds. The spreads on Romanian debt have remained stable despite emerging market turmoil dues to Argentina's debt problems.

5. Significant Barriers to U.S. Exports

Traditionally-defined trade and investment barriers are not a significant problem in Romania, as there are no laws that directly prejudice foreign trade or business operations. Tariff preferences resulting from Romania's Association Agreement with the EU have disadvantaged U.S. exports in several sectors, including agriculture, telephonic equipment, computers, and beverages.

Bureaucratic red tape and frequent changes in the legal framework make doing business in Romania challenging. Negotiating contracts can be time consuming and, once concluded, enforcement is not uniform. In addition, delays in reconciling conflicting property claims arising from seizures during the World War II and Communist eras, have resulted in a situation in which purchasers are potentially subject to legal challenge by former owners and title insurance is not available. The absence of clear and expedient legal recourse to recover claims against debtors has represented a further complication for foreign investors.

The cost of doing business in Romania is relatively high for the region, particularly for office rental, transportation and telecommunication services. Lack of an efficient payment system further delays transactions in Romania. Capital requirements for foreign investors are not onerous, but local capital remains expensive. Also, taxes on both profits and operations are steep. Investors complain of inconsistency in Romania's policy on tax incentives for foreign companies. Foreign companies have qualified for some tax exemptions based on the size of their direct investment.

There are few formal barriers to investment in Romania. The Foreign Investment Law allows for full foreign ownership of investment projects (including land, for as long as the investment is in place.) There are no legal restrictions on the repatriation of profits and equity capital. The continually changing legal regime for investment and privatization, however, forms a significant obstacle to investment. Government approval of joint ventures requires extensive documentation. U.S. cumulative direct investments in Romania totaled US$ 693.2 million by December 2000, which represents 8.2 percent of the total foreign direct investment in Romania. The figure for 2000 is US$ 107.2 million.

Romania is a full member of the World Trade Organization, but not a signatory to the agreement on government procurement.

6. Export Subsidies Policies

The Romanian Government does not provide export subsidies but does attempt to make exporting attractive to Romanian companies. For example, the government provides refunds of import duties for goods that are then processed for export. The Romanian Export-Import Bank engages in trade promotion activities on behalf of Romanian exporters, and has lately become more of a commercial and analysis bank.

There are no general licensing requirements for exports from Romania, but the government does prohibit or control the export of certain strategic goods and technologies.

There are also export controls on imported or domestically produced goods of proliferation concern.

7. Protection of U.S. Intellectual Property Rights

Romania has enacted significant legislation in intellectual property protection. Modern patent, trademark, and copyright laws are in place. In 2001, the Romanian Parliament ratified the latest copyright and neighboring right treaties of Geneva that Romania had signed and adhered to since 1996: WIPO copyright treaty and WIPO artistic performance and phonogram treaty. Still, enforcement is limited and often ineffective, especially in the copyright area.

Pirated copies of audio and video cassettes, CDs, and software are still readily available. In a few cases, pirated films were broadcast on local cable television channels. There are no known exports of pirated products from Romania.

Romania is a member of the Berne Convention, the World Intellectual Property Organization, the Paris Intellectual Property Convention, the Patents Cooperation Treaty, the Madrid Convention, and the Hague Convention on Industrial Design, Drawings and Models. As a country in transition, Romania implemented the WTO agreement on intellectual property beginning January 1, 2000. Industrial property law amendments needed for full compliance with TRIPS have already been drafted, but not yet enacted. These drafts include the law for changing and completing Patent Law (64/1991) and the draft law for changing and completing Industrial Drawing and Model Protection (129/1992).

The TRIPS-consistent Copyright and Neighboring Rights Law has been inefficiently implemented, mainly due to the lack of coordination among the government enforcement agencies, police, prosecutors and judges, as well as due to each of these organizations' lack of focus and appropriate budget. The Business Software Association estimates that currently, pirated products account for about 77 percent of the Romanian market, down from 95 percent prior to the law's coming into force. The music piracy rate is estimated at 55 percent and audio-visual piracy about 50 percent. In order to solve this problem, the government drafted a bill that came into force in 2001 regulating the customs' right to check on imports from the IPR point of view.

On March 26, 2001, almost five years after the passage of the Copyright Law, Romania carried out the first mass-destruction of seized counterfeited CDs and music tapes.

8. Worker Rights

a. The Right of Association: All workers, except public employees, have the right to associate freely and to form and join labor unions without prior authorization. Labor unions are free from government or political party control but may engage in political activity. Labor unions may join federations and affiliate with international bodies, and representatives of foreign and international organizations may freely visit and advise Romanian trade unions.

b. The Right to Organize and Bargain Collectively: Workers have the right to bargain collectively. Basic wage scales for employees of state-owned enterprises are established through collective bargaining with the state. There are no legal limitations on the right to strike, except in sectors the government considers critical to the public interest (e.g. defense, health care, transportation). In early 2001, the government concluded a Social Pact with national union confederation and employer associations, under which the unions agreed not to stage national strikes, in return for promises regarding wages, pensions and new labor legislation. However, the Social Pact does not prevent local unions from staging protests and strikes protesting privatization or restructuring of their companies or wage levels that do not keep the pace with the rate of inflation.

c. Prohibition of Forced or Compulsory Labor: The constitution prohibits forced or compulsory labor. The Ministry of Labor and Social Protection effectively enforces this prohibition.

d. Minimum Age for Employment of Children: The minimum age for employment is 16. Children over 14 may work with the consent of their parents, but only "according to their physical development, aptitude, and knowledge." Working children under 16 have the right to continue their education, and employers are required to assist in this regard.

e. Acceptable Conditions of Work: Minimum wage rates are generally observed and enforced. The Labor Code provides for a standard workweek of 40 hours with overtime for work in excess of 40 hours, and paid vacation of 18 to 24 days annually. Employers are required to pay additional benefits and allowances to workers engaged in dangerous occupations. The Ministry of Labor and Social Protection has established safety standards for most industries, but enforcement is inadequate and employers generally ignore the Ministry's recommendations. Labor organizations continue to press for healthier, safer working conditions. On average, women experience a higher rate of unemployment than men and earn lower wages despite educational equality.

f. Rights in Sectors with U.S. Investment: Conditions do not appear to differ in goods producing sectors in which U.S. capital is invested.

Extent of U.S. Investment in Selected Industries -- U.S. Direct Investment Position Abroad on an Historical Cost Basis -- 2000

(Millions of U.S. Dollars)

Category		Amount
Petroleum		(D)
Total Manufacturing		27
Food & Kindred Products	(D)	
Chemicals & Allied Products	(D)	

Primary & Fabricated Metals	0	
Industrial Machinery and Equipment	1	
Electric & Electronic Equipment	0	
Transportation Equipment	5	
Other Manufacturing	0	
Wholesale Trade		21
Banking		0
Finance/Insurance/Real Estate		(D)
Services		0
Other Industries		24
TOTAL ALL INDUSTRIES		106

(D) Suppressed to avoid disclosing data of individual companies.
Source: U.S. Department of Commerce, Bureau of Economic Analysis.